

Message Text

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ACTION EUR-12

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LAB-04 SIL-01 PA-02 PRS-01 AGRE-00 DOE-12 /108 W
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TO SECSTATE WASHDC 3936
INFO AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
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UNCLAS SECTION 01 OF 02 BRUSSELS 19149

PARIS ALSO FOR USOECD; ALSO FOR USEEC

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SUBJECT: INVESTMENT CLIMATE AND STATISTICS: BELGIUM

REF: (A) 75 BRUSSELS 6836 AND 10237; (B) 76 BRUSSELS A-244;
(C) BRUSSELS A-34; (D) BRUSSELS A-159; (E) BRUSSELS 14440;
(F) BRUSSELS A-229; (G) STATE 244738

1. AS REQUESTED BY THE REFERENCED DEPTTEL, THE FOLLOWING
IS THE EMBASSY'S UPDATED STATEMENT OF THE FOREIGN INVEST-
MENT CLIMATE IN BELGIUM AND RELATED STATISTICS. MUCH OF
THE STATEMENT IS DRAWN FROM THE EMBASSY MESSAGES REFERENCED,
WHICH PROVIDE ADDITIONAL DETAIL ON VARIOUS FACTORS AND DE-
VELOPMENTS HAVING TO DO WITH THE INVESTMENT PICTURE HERE.

2. INVESTMENT CLIMATE. WITH THE WORLD'S HIGHEST PER CAPITA
LEVEL OF FOREIGN TRADE, BELGIUM MAINTAINS A VERY LIBERAL
AND OPEN ATTITUDE TOWARDS FOREIGN INVESTMENT. BOTH INCEN-
TIVES AND LOCAL FISCAL, SOCIAL AND BUSINESS LAW ARE AP-
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PLIED IMPARTIALLY, WHETHER TO FOREIGN OR DOMESTIC INVESTORS.
AS A RESULT, FOREIGN COMPANIES PUT CONSIDERABLE CAPITAL
INTO BELGIUM DURING THE 1960'S AND EARLY 1970'S, DRAWN BY
ITS FAVORABLE LOCATION, HIGHLY-DEVELOPED INDUSTRIAL AND
INFRASTRUCTURAL BASE, FREEDOM FOR CAPITAL TRANSFERS AND
PRODUCTIVE LABOR, AS WELL AS ITS ROLE AS HOST TO HEADQUARTERS
OF THE EC COMMISSION AND OF NATO.

U.S. BUSINESS IN PARTICULAR HAS FOUND BELGIUM A CONVENIENT SITE FOR EXPORT PROMOTION AIMED AT THE REST OF THE EC TARIFF AREA PLUS OTHER GROWING MARKETS IN EASTERN EUROPE

AND THE MIDDLE EAST. ABOUT 1200 U.S. FIRMS ARE CURRENTLY IN BELGIUM. THEY BENEFIT BOTH FROM A US-BELGIAN DOUBLE-TAXATION TREATY AND A TREATY OF FRIENDSHIP, ESTABLISHMENT AND NAVIGATION, GUARANTEEING NATIONAL TREATMENT TO EACH OTHER'S FOREIGN INVESTMENTS. IN MOST CASES, U.S. AND OTHER FOREIGN INVESTORS ARE ABLE TO ESTABLISH BUSINESSES OR MANUFACTURING OPERATIONS IN BELGIUM SIMPLY THROUGH OBTAINING THE ROUTINE PERMITS REQUIRED OF ANY INVESTOR, NATIONAL OR FOREIGN.

CURRENT ECONOMIC CONDITIONS HAVE SHADOWED PROSPECTS, HOWEVER. AFTER A SHORT REVIVAL IN 1976, BUSINESS ACTIVITY HAS BEEN GENERALLY SLUGGISH IN 1977. REAL GNP GROWTH, WILL BE ONLY A MODEST 2.5 PERCENT FOR THE YEAR. INDUSTRIAL PRODUCTION HAS SLUMPED TO ABOUT 75 PERCENT OF OVERALL PLANT CAPACITY. PROFITS HAVE RECOVERED SOMEWHAT FROM THEIR SHARP DROP IN 1975/76, BUT ARE STILL FAR BELOW PRE-RECESSION LEVELS. UNEMPLOYMENT NOW TOUCHES 7.3 PERCENT OF THE WORK FORCE, A POST-WAR HIGH FOR BELGIUM, AND IS LIKELY TO GROW MORE. INITIAL FORECASTS FOR 1978 OFFER LITTLE HOPE FOR IMPROVEMENT FOR THE EXPORT-ORIENTED BELGIAN

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ECONOMY, PARTICULARLY AS LONG AS WORLD TRADE GROWTH CONTINUES SLOW.

THESE CIRCUMSTANCES, WHICH ARE REFLECTED TO A GREATER OR LESSER EXTENT THROUGHOUT ALL EC MARKETS, HAVE LED TO A STEEP DECLINE IN U.S. INVESTOR ACTIVITY IN BELGIUM. ACCORDING TO THE MINISTRY OF ECONOMIC AFFAIRS, DIRECT, NEW AMERICAN INVESTMENT WAS ONLY \$50 MILLION IN 1976, A SHARP DROP EVEN IN CURRENT DOLLARS FROM THE OVER \$100 MILLION ANNUAL AVERAGE REGISTERED BY U.S. INVESTORS IN BELGIUM DURING THE PERIOD 1970-75. U.S. DISINVESTMENT HAS INCREASED ONLY marginally, HOWEVER. FIRMS ALREADY HERE ARE GENERALLY STANDING PAT AND, IN SOME CASES, SCALING DOWN THEIR PLANS OR DELAYING DECISIONS.

THE PRESSURE OF LOCAL OPERATING COSTS, AMONG THE HIGHEST IN EUROPE, HAS EASED SOMEWHAT THANKS TO SLACKENING INFLATION (CURRENTLY 6.5 PERCENT ANNUALLY) AND TO STABLE IMPORT PRICES FOR RAW MATERIALS AND OIL DUE TO THE CONTINUING HIGH PARITY OF THE BELGIAN FRANC. SALARIES WHICH ARE TIED TO THE BELGIAN CONSUMER PRICE INDEX HAVE ALSO MODERATED CONSIDERABLY OVER THE PAST TWO YEARS. THE GOVERNMENT HAS

TAKEN MEASURES TO EASE COMPANIES' CASH-FLOW POSITIONS
THROUGH CHANGES IN CERTAIN TAX, AMORTIZATION AND SOCIAL
PAYMENT RULES, PARTICULARLY AS CONCERN NEW, JOB-CREATING

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PARIS ALSO FOR USOECD; ALSO FOR USEEC

INVESTMENTS. THE FIVE PERCENT VAT ON INVESTMENT GOODS IS
ALSO BEING REMOVED FOR CERTAIN KINDS OF JOB-CREATING ACTIV-
ITIES. THE BASIC BELGIAN CORPORATION TAX REMAINS AT 48
PERCENT; CERTAIN TAX INCENTIVES EXIST, HOWEVER, TO ENCOUR-
AGE ECONOMICALLY-DESIRABLE MERGERS AND FOREIGNERS TEMPORAR-
ILY RESIDENT IN BELGIUM CAN BENEFIT FROM FAVORABLE PERSONAL
TREATMENT.

STRUCTURAL PROBLEMS WITHIN THE BELGIAN SYSTEM WILL NONETHE-
LESS KEEP PRICES AND COSTS AS A MAJOR PREOCCUPATION FOR
THE INDEFINITE FUTURE. THE GENEROUS BELGIAN SYSTEM OF COM-
PULSORY FRINGE BENEFITS AND TERMINATION PAYMENTS IS A DIS-
SUASIVE FACTOR FOR SOME INVESTORS, PARTICULARLY IN LABOR-
INTENSIVE INDUSTRIES. UNEMPLOYMENT AND OTHER SOCIAL
CHANGES HAVE PUSHED THE NATIONAL BUDGET INTO A SEVERE
CURRENT DEFICIT, LIMITING THE GOVERNMENT'S CHOICES IN IM-
PLEMENTING FISCAL, MONETARY AND INTEREST RATE POLICY. RE-
FORM OF THE WAGE INDEXATION AND SOCIAL WELFARE SYSTEMS IS
DIFFICULT POLITICALLY AND UNION PRESSURE FOR REAL WAGE GAINS
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IS GROWING. FINALLY, LOSS OF COMPETITIVITY IN SOME TRADITIONAL SECTORS SUCH AS STEEL AND TEXTILES WILL PROBABLY LEAD TO EXPENSIVE INDUSTRIAL RESTRUCTURING DURING THE 1980'S AND BEYOND. THESE STRUCTURAL CHANGES WILL BE ALSO COMPLICATED BY GROWING REGIONAL AUTONOMY WITHIN THE COUNTRY.

CURRENT BELGIAN INVESTMENT POLICY IS BASED ON 1959 AND 1970 LAWS WHICH PROVIDE FOR GOVERNMENT ASSISTANCE ON A CASE-BY-CASE BASIS FOR INVESTMENTS WHICH MEET CERTAIN NATIONAL CRITERIA IN TERMS OF REGIONAL AND TECHNOLOGICAL DEVELOPMENT AS WELL AS IN JOB-CREATION. THESE AIDS TAKE THE FORM OF INTEREST-RATE SUBSIDIES, CAPITAL OR EMPLOYMENT GRANTS, TAX RELIEF AND GOVERNMENT GUARANTEES. SUCH PROGRAMS ARE LIKELY TO CONTINUE, PARTICULARLY TO HELP ENCOURAGE NEW INVESTMENT IN AREAS GOING THROUGH INDUSTRIAL RECONVERSION. OTHER OFFICIAL ASSISTANCE PROGRAMS EXIST AS WELL SUCH AS NEW PRODUCT DEVELOPMENT GRANTS, EXPORT CREDIT GUARANTEES AND HELP IN LABOR RE-TRAINING.

IN SUMMARY, ECONOMIC TRENDS IN RECENT YEARS HAVE RENDERED BELGIUM'S INVESTMENT POTENTIAL MORE PROBLEMATIC THAN IN THE PAST. THE POTENTIAL INVESTOR SHOULD STUDY BELGIAN CIRCUMSTANCES WITH CARE. THE COUNTRY'S CURRENT PROBLEMS SHOULD NOT DISGUISE THE FACT, HOWEVER, THAT BELGIUM CONTINUES TO OFFER THE INVESTMENT ADVANTAGES OF A DEVELOPED, WELL-RUN AND POLITICALLY-STABLE FREE-MARKET ECONOMY, BOASTING A PRODUCTIVE AND RELATIVELY DISCIPLINED WORKING FORCE, PLUS A

REMARKABLY HIGH LEVEL OF PUBLIC ACCEPTANCE OF FOREIGN BUSINESS ACTIVITIES.

3. STATISTICAL INFORMATION. ACCORDING TO THE MINISTRY OF
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ECONOMIC AFFAIRS, FOREIGN INVESTMENT IN BELGIUM FROM 1959 THROUGH 1976 FROM LEADING DEVELOPED COUNTRIES IS AS FOLLOWS (BILLIONS OF BF AT CURRENT PRICES):

U.S. - 93.2
WEST GERMANY - 22.9
NETHERLANDS - 19.3
FRANCE - 21.2
TOTAL/ALL COUNTRIES - 193.6

RELIABLE INVESTMENT INFORMATION PRE-1959 DOES NOT EXIST.

IN ADDITION, IT SHOULD BE NOTED THAT THE FIGURES CITED POST-1959 REFLECT MAJOR NEW INCOMING INVESTMENTS ONLY, NOT REINVESTMENT OR SMALLER-SCALE PLANT GROWTH. USING AVAILABLE INFORMATION AND ESTIMATES, THE EMBASSY HAS CALCULATED THAT TOTAL BOOK VALUE OF ALL FOREIGN INVESTMENT IN BELGIUM MAY BE IN THE NEIGHBORHOOD OF BF 300 BILLION. BY THE SAME METHODS, WE ESTIMATE THAT TOTAL BOOK VALUE OF U.S. INVESTMENT IN BELGIUM IS APPROXIMATELY BF 140 BILLION, OR NEARLY HALF OF ALL FOREIGN INVESTMENT IN THE COUNTRY. THE AMERICAN SHARE OF FOREIGN INVESTMENT FLOWS, WHICH WAS AS HIGH AS 65 PERCENT DURING THE PERIOD 1959-68 AND 47 PERCENT FOR THE PERIOD 1959-76, HAS DROPPED SHARPLY HOWEVER IN RECENT YEARS WHILE THAT OF BELGIUM'S EC PARTNERS HAS INCREASED IN RELATIVE TERMS. CHAMBERS

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